



# Delaware State Treasury

State Treasurer Chip Flowers

# DELAWARE ECONOMIC INDEX

As of March 1, 2013



## Impact of the Sequester on Delaware

See page 11

### STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

**FAIR**

#### LEGEND FOR ECONOMIC CLIMATE



NATIONAL ECONOMIC TREND  
Slow Growth



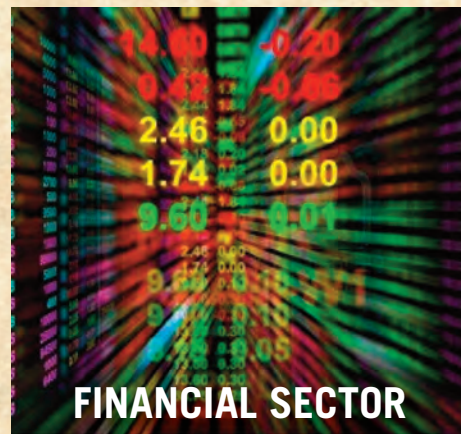
### CONSUMER SECTOR

National consumer confidence increased.  
See page 4



### BUSINESS SECTOR

Delaware's Coincident Index was flat in Dec.  
See page 7



### FINANCIAL SECTOR

Delaware Stock Index rose by 4.54%.  
See page 12





**State Treasurer Chip Flowers**

## A Message from the State Treasurer

### To People of the State of Delaware:

Welcome to the March 2013 edition of the Delaware Economic Index. This is the first edition featuring our new format for the Index. This new format seeks to enhance interactivity by allowing you to obtain additional information on certain topics by clicking on the text in the feature boxes. Also, the new index provides you with more economic data to assist you in your financial decisions.

Delaware's economy remains at a "fair" level. The state unemployment rate remains below 7%, as it has since February 2012, but national economic growth sputtered at the end of the fourth quarter of 2012. Early in 2013, economic headwinds in the form of a 2% increase in the payroll taxes, along with the continued political turmoil resulting from the sequester have surfaced. Still, there are positive economic indicators in areas such as the housing sector and consumer confidence. Hopefully, in 2013, Delaware and the nation can take the next step in our economic recovery.

Finally, we released *The Third Report on the Delaware State Treasury* highlighting numerous achievements of our office over the past year. Your State Treasury successfully managed your money during uncertain financial times – including the federal "fiscal cliff" threat, sequestration, the U.S. Government debt downgrade, historically low interest rates and continual issues in the global economy. During this time, we protected state funds by collateralizing state deposits and restructured a declining state portfolio into a diverse asset fund that is now returning millions in additional interest income without increasing risk. Also, we created the Delaware Stock Index and revamped this Economic Index and Economic Early Warning System so you can make informed decisions. These accomplishments, along with many others, are set forth in the Third Report. I encourage you to read the report!

If you have any comments on the new format or in general, feel free to e-mail me at [statetreasurer@state.de.us](mailto:statetreasurer@state.de.us) or call (302) 672-6700. We are here to serve you.

Best,

Chip Flowers, *Delaware State Treasurer*



**Read the Third Report on the Delaware State Treasury.**



**Find out if you are eligible for the Earned Income Tax Credit.**



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## KEY RATIONALE

- Based on the latest available data, the state unemployment rate is 6.9%. The state unemployment rate for January and February 2013 will be released on March 8 and March 22, respectively.
- Delaware's housing market is improving. Home sales increased in Kent County by 14% and 6.5% in New Castle County, but decreased by 9% in Sussex County. Home prices rose 17% in New Castle County, 7.3% in Kent County and slightly in Sussex County. All these figures are year-over-year numbers.
- The Regional Consumer Price Index indicated a 0.9% decrease in prices from October.
- The Federal Reserve's Beige Book found a resumption of modest growth in the Philadelphia region, which includes Delaware. Regional growth had been temporarily hurt by the impact of Hurricane Sandy. Retail sales, services, and commercial real estate lending improved from mild to modest growth rates while auto sales reached a moderate level of growth. The manufacturing, construction, staffing, and transportation sectors also improved from the previous Beige Book to a mild level of growth. Overall, respondents expressed increased optimism compared to the previous Beige Book and significantly more expressed an interest in increasing employment, although there were some reported concerns over the expiration of the payroll tax cut and sequestration.
- Regional banks continued to report improvement in credit quality and saw slight growth in lending volume.
- Regional manufacturing activity, which had resumed growth in December, has declined for two consecutive months, as measured by the Federal Reserve Bank of Philadelphia's survey. However, Delaware firms account for only approximately 5% of the survey.
- The Federal Reserve Bank of Philadelphia's Coincident Index showed Delaware's economic activity as flat over the past month. The Federal Reserve Bank of Philadelphia's Leading Index declined and is forecasting economic contraction through the second quarter of 2013.
- National consumer confidence increased in both the Conference Board and University of Michigan surveys.
- The national economy continued to add jobs at a moderate pace. The national unemployment rate in January was 7.9%. This represents an increase from a revised rate of 7.8% in November. 157,000 net jobs were created in January and 155,000 in December. The net gains for the private sector were 166,000 and 168,000 respectively.
- The four-week moving average of new U.S. jobless claims was 355,000 for the period ended February 16, which is a slight decline from the average of 356,750 for the period ended December 22.
- In Delaware, new jobless claims decreased since the previous Index. The four-week average is 1,080, down from 1,130.
- President Obama signed legislation suspending the debt ceiling until May 19. However, Congress and the President have not been able to reach an agreement on sequestration. \$85 billion of budget cuts took effect on March 1 as a result. Overall, sequestration will result in spending reductions of \$1.2 trillion over the next decade.
- Delaware's portfolio, held and managed by the Treasury, is \$1.64 billion as of February 28, compared to \$1.86 billion as of December 31.

## Delaware Economic Early Warning System

STATE ECONOMIC CLIMATE OVER PAST 60 DAYS

FAIR





# CONSUMER SECTOR



The national Gross Domestic Product increased at an annualized rate of 0.1% in the 4th quarter of 2012.



Consumer debt increased in December.



Gas prices set a record high in 2012.





## Employment

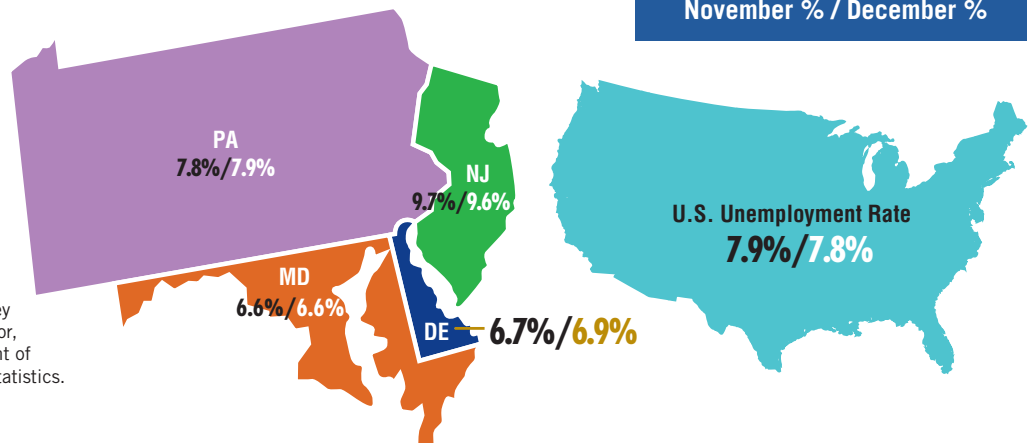
Delaware (Dec. 2012)		Delaware (Nov. 2012)	
Labor force	441,769	Labor force	440,327
Employment	411,269	Employment	410,763
Unemployed	30,500	Unemployed	29,564
Unemployment rate	6.9%	Unemployment rate	6.7%



Source: Delaware Department of Labor

## Regional Unemployment

November 2012 / December 2012



Sources: Delaware Department of Labor; New Jersey Department of Labor; Maryland Department of Labor, Licensing and Regulation; Pennsylvania Department of Labor & Industry, United States Bureau of Labor Statistics.

## Delaware Jobless Claims

Initial Claims Filed

Week Ended	Number
February 16	873
February 9	1,035
February 2	1,222
January 26	1,188
January 19	1,392
January 12	1,774
January 5	1,581
December 29	1,827

Four week average: 1,080  
Eight week average: 1,362

Source: U.S. Department of Labor





## Gas Prices

	Delaware	United States
March 1, 2013	\$3.65	\$3.72
One Week Ago	\$3.69	\$3.73
December 31, 2012	\$3.42	\$3.27
One Year Ago	\$3.65	\$3.69

Source: Delawaregasprices.com



## Mortgage Rates

	As of Feb. 28, 2013	Week Prior
30-year fixed	3.51%	3.56%
15-year fixed	2.76%	2.77%
5-year ARM	2.61%	2.64%
1-year ARM	2.64%	2.65%

Source: Freddie Mac



## Primary Mortgage Market Survey®

	As of Feb. 28, 2013	Fees and Points
30-year fixed	3.51%	0.8%
15-year fixed	2.76%	0.8%

## Consumer Confidence

### Conference Board

Month	Index
February	69.6
January	58.4

### Rating Index

90 = Doing well  
100 = Strong growth

Source: Conference Board

### University of Michigan

Month	Index
February	77.6
January	73.8

Source: University of Michigan

## Regional Consumer Price Index

	Dec-2012	Oct-2012	Change since Oct.	Change since Dec. 2011
All Items	238.492	240.537	-0.9%	+1.8%
Core	246.571	247.794	-0.5%	+1.8%

The regional CPI covers the Philadelphia-Wilmington-Atlantic City Consolidated Metropolitan Statistical Area. In Delaware, it covers New Castle County. Core consumer price index is the inflation rate minus food and energy items.





# B U S I N E S S   S E C T O R



The Congressional Budget Office projects an economic recovery in 2014 and higher U.S. Government debt.



The national housing market shows signs of rebounding.



National health care spending grew at a slow rate, by historical standards, for the third consecutive year.



## National Manufacturing

National economic activity in the manufacturing sector grew for the third consecutive month in February. The PMI improved from 53.1 to 54.2. This is the PMI's highest reading since June 2011. New orders grew for the second consecutive month and 15 of 18 manufacturing industries reported growth.

Index	Series Index Feb.	Series Index Jan.	% Point Change	Status	Rate of Change	Trend* (Months)
PMI	54.2	53.1	+1.1	Growing	Faster	3
Production	57.6	53.6	+4.0	Growing	Faster	6
New Orders	57.8	53.3	+4.5	Growing	Faster	2
Employment	52.6	54.0	-1.4	Growing	Slower	41
Supplier Deliveries	51.4	53.6	-2.2	Slowing	Slower	4
Inventories	51.5	51.0	+0.5	Growing	Faster	2
Prices	61.5	56.5	+5.0	Increasing	Faster	7
Backlog of Orders	55.0	47.5	+7.5	Growing	From Contracting	1
Exports	53.5	50.5	+3.0	Growing	Faster	3
Imports	54.0	50.0	+4.0	Growing	From Unchanged	1
Inventories	51.5	51.0	+0.5	Growing	Faster	2
Customers' Inventories	46.5	48.5	-2.0	Too Low	Faster	15

Source: ISM Report on Business

## National Non-Manufacturing

National economic activity in the non-manufacturing sector grew in January for the 37th consecutive month. The NMI registered at 55.2, a slight decline from 55.7 in December. The components for business activity and new orders decreased significantly, but remained in positive territory. Employment increased for the 6th consecutive month. Survey respondents held mixed views of the economy and business conditions, but remain optimistic about the overall economic trend.

Index	Series Index Jan.	Series Index Dec	% Point Change	Status	Rate of Change	Trend* (Months)
NMI/PMI	55.2	55.7	-0.5	Growing	Slower	37
Business Activity/Production	56.4	60.8	-4.4	Growing	Slower	42
New Orders	54.4	58.3	-3.9	Growing	Slower	42
Employment	57.5	55.3	+2.2	Growing	Faster	6
Supplier Deliveries	52.5	48.5	+4.0	Slowing	From Faster	1
Inventories	47.0	50.0	-3.0	Contracting	From Unchanged	1
Prices	58.0	56.1	+1.9	Increasing	Faster	40
Backlog of Orders	49.0	49.5	-0.5	Contracting	Faster	2
New Export Orders	55.5	49.5	+6.0	Growing	From Contracting	1
Imports	51.0	49.0	+2.0	Growing	From Contracting	1
Inventory Sentiment	64.0	58.0	+6.0	Too High	Faster	188
Customers' Inventories	N/A	N/A	N/A	N/A	N/A	N/A

Source: ISM Report on Business





## Regional Business Outlook Survey Diffusion Indexes

The February Business Outlook Survey indicates contraction in regional manufacturing for the second consecutive month. The employment and shipments category moved into positive territory and the Survey's indicators for future activity improved. Survey respondents anticipate an increase in production, orders and shipments over the next six months.

	Feb. 2013	Jan. 2013
General Evaluation	-12.5	-5.8
New Orders	-7.8	-4.3
Shipments	2.4	-0.4
Unfilled Orders	-11.2	-1.0
Delivery Times	0.2	-2.0
Inventories	-10.0	-6.5
Prices Paid	8.9	14.7
Prices Received	-0.5	-1.1
Number of Employees	0.9	-5.2
Average Employee Workweek	-1.6	-8.3

Source: Federal Reserve Bank of Philadelphia

The Business Outlook Survey is conducted monthly by the Federal Reserve Bank of Philadelphia to gauge manufacturing activity in the region.

## Small Business Optimism Index

Month	Index
February	88.9
January	88.0

Index Component	Net %	Change from Last Month
Plans to Increase Employment	3%	▲ 2%
Plans to Make Capital Outlays	21%	▲ 1%
Plans to Increase Inventories	-7%	▼ -3%
Expect Economy to Improve	-30%	▲ 5%
Expect Real Sales Higher	-1%	▲ 1%
Current Inventory	-1%	▼ -1%
Current Job Openings	18%	▲ 2%
Expected Credit Conditions	-9%	▲ 2%
Now a Good Time to Expand	6%	▼ -2%
Earnings Trends	-26%	▲ 3%

Source: National Federation of Independent Businesses

## Producer Price Index

	Jan. 2013	Jan. 2012
Total	<b>+0.2%</b>	<b>+1.4%</b>
Except food and energy	<b>+0.2%</b>	N/A
Foods	<b>+0.7%</b>	N/A
Energy	-0.4%	N/A

These are the Producer Price Index changes for finished goods. The index increased for the first time since September 2012.

Source: U.S. Bureau of Labor





### Coincident Index

The Coincident Index for Delaware was flat in December. Payroll employment rose, but so did the unemployment rate and hours worked in the manufacturing sector decreased.

Source: Federal Reserve Bank of Philadelphia

*The Coincident Index is issued by the Federal Reserve Bank of Philadelphia to summarize economic conditions in the region. An increase in a state's coincident index indicates an increase in such state's Gross Domestic Product (GDP) growth.*

Area	Dec. 2012	1-Month Change	3-Month Change	12-Month Change
Delaware	143.4	0.0%	+0.2%	+0.4%
New Jersey	148.5	+0.3%	+0.9%	+2.1%
Pennsylvania	141.2	0.0%	+0.5%	+1.4%
US	152.7	+0.2%	+0.6%	+2.7%

### Leading Index

The Leading Index for Delaware was -0.5 in December, suggesting economic contraction through the second quarter of 2013. The state's Coincident Index remained steady and building permits declined. However, new jobless claims declined and the index of delivery times from the Institute for Supply Management's manufacturing survey increased.

Source: Federal Reserve Bank of Philadelphia

*The Leading Index is issued by the Federal Reserve Bank of Philadelphia to predict the six-month growth rate of a state's Coincident Index.*

Area	Dec.	Nov.	Oct.
Delaware	-0.5	0.2	0.6
Pennsylvania	0.4	1.2	1.3
New Jersey	2.9	2.5	1.6
US	1.4	1.5	1.4





## SPECIAL FEATURE

### What is sequestration?

Sequestration consists of a series of automatic mandatory budget cuts that took effect on March 1. The cuts originate in the 2011 Budget Control Act ("BCA"), which was passed in a deal to resolve the debt ceiling stand-off between the President and Congress. The Congressional Budget Office concluded the BCA would reduce deficits by \$917 billion from 2012-2021. The BCA also required the creation of a Congressional "supercommittee" tasked with finding \$1.5 trillion in additional deficit reduction. If it failed and Congress did not otherwise find such cuts, the legislation had a provision instituting mandatory budget cuts of \$1.2 trillion slated to go into effect on March 1, 2013. These cuts are known as sequestration. The sequester was delayed for two months as part of the fiscal cliff deal.

Social Security, Medicaid, and veterans benefits are exempt from sequestration. Cuts to Medicare benefits are limited to 2%. Since cuts will have to be achieved over the final seven months of the federal fiscal year, the approximate cuts for the remainder of the year will be 13% for the Department of Defense and 9% for nondefense programs subject to sequestration.

### Impact of the Sequester on Delaware

The following highlights the impact of the sequester on Delaware. \$85 billion of the sequester's spending reductions would occur this year.

- Federal grants subject to sequester account for nearly 5% of the state's revenue;
- \$1.4 million cut in aid for primary and secondary education;
- Head Start and Early Head Start would be eliminated for approximately 100 children;
- About 150 fewer students from low income backgrounds would receive financial aid and approximately 50 fewer students would receive work-study jobs;
- Nearly 1,500 civilian Department of Defense employees would be furloughed from April through September. This would have the effect of reducing employee income by as much as 20% for the remainder of the fiscal year;
- Operating funding for the Dover Air Force Base would decline by \$600,000;
- \$83,000 of reduced Justice Assistance Grants;
- \$1.1 million cut from funding for air and water quality;
- An estimated 3,230 fewer people would receive job search assistance due to an \$86,000 decrease in funding;
- \$19,000 in cuts in the STOP Violence Against Women program would result in up to 100 less victims being served;
- \$201,000 less in nutrition assistance for seniors;
- \$26,000 in cuts for vaccination for children would result in approximately 380 less children receiving vaccinations; and
- New Castle Airport's air traffic tower could be closed due to sequestration. Salisbury-Ocean City Wicomico Regional Airport also is on the list of airports that potentially could face a tower closure.



Source: White House, Congressional Budget Office, NewsJournal, the Pew Center on the States





# FINANCIAL SECTOR



Moody's Investor Services downgraded the United Kingdom's credit rating.



The Euro Zone's Gross Domestic Product declined by an annualized rate of 2.3% in the 4th quarter of 2012.



Moody's, Fitch and Standard & Poor's reaffirm Delaware's "AAA" credit rating, the highest possible rating.





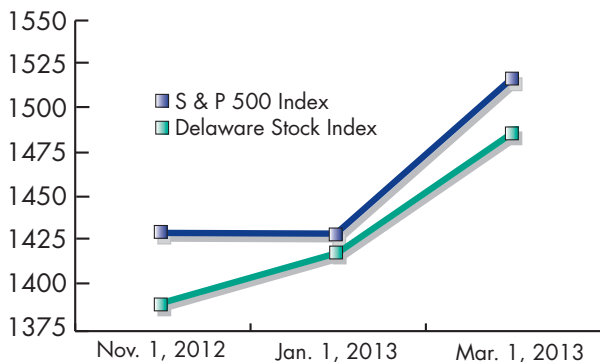
## Stock Prices of Key Delaware Employers

Employer	Jan. 1 2013	Mar. 1 2013	% Change
Amazon.com Inc.	\$250.87	\$265.74	+5.93%
Ashland Inc.	\$80.41	\$77.53	-3.58%
AstraZeneca PLC	\$47.27	\$45.45	-3.85%
Bank of America Corp.	\$11.61	\$11.34	-2.33%
Barclay's PLC	\$17.32	\$18.19	+5.02%
Chesapeake Utilities Corp.	\$45.40	\$48.52	+6.87%
Citigroup Inc.	\$39.56	\$42.11	+6.45%
Comcast Corp.	\$37.36	\$40.03	+7.15%
Dover Downs Gaming & Entertainment Inc.	\$2.20	\$2.27	+3.18%
Dow Chemical Co.	\$30.11	\$32.33	+7.37%
Dow Chemical Co.	\$32.33	\$31.81	-1.61%
DuPont	\$44.98	\$48.09	+6.91%
JP Morgan Chase & Co.	\$43.51	\$48.91	+12.41%
Kraft Foods Inc.	\$45.47	\$48.57	+6.82%
M & T Bank Corp.	\$98.47	\$102.66	+4.26%
Pepco Holdings Inc.	\$19.61	\$20.53	+4.69%
PNC Financial Services Co.	\$58.31	\$62.78	+7.67%
Rite Aid Corp.	\$1.36	\$1.68	+23.53%
Safeway Inc.	\$18.02	\$24.10	+33.74%
Siemens AG	\$109.47	\$103.67	-5.30%
Simon Property Group	\$157.39	\$159.99	+1.65%
Supervalu Inc.	\$2.47	\$3.96	+60.32%
Tanger Factory Outlet Centers Inc.	\$34.20	\$35.37	+3.42%
Verizon Communications Inc.	\$42.82	\$46.72	+9.11%
Walgreen Co.	\$36.84	\$41.32	+12.16%
Wal-Mart Stores, Inc.	\$67.70	\$71.74	+5.97%
Wells Fargo	\$33.98	\$35.39	+4.15%
WSFS Financial Corp.	\$42.25	\$47.36	+12.09%
Delaware Stock Index	1,421.18	1,485.83	+4.54%
S & P 500 Index	1,426.19	1,518.20	+6.45%
Dow Jones Industrial Average	13,104.14	14,089.66	+7.52%

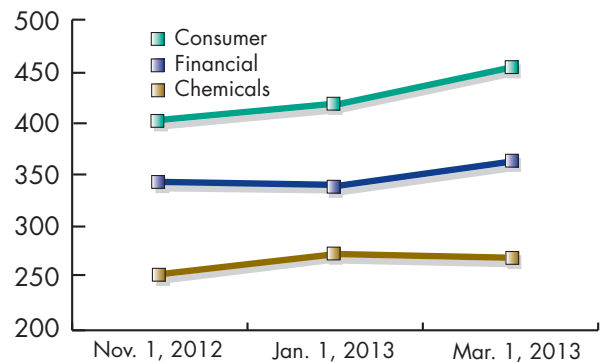
Source: Google Finance

## Stock Index Comparison

S&P and Delaware Stock Indexes



Delaware Stock Index by Sector







## Treasury's Portfolio Balances

As of February 28, 2013

Portfolio	Market Value	% of Total
<b>Liquidity A/Cs:</b>		
BNYM Cash Inv Strategies	\$96,364,359.54	5%
JP Morgan Res & Cash	\$163,719,306.98	10%
Wells Capital Liquidity	\$187,229,189.07	11%
Wilmington Trust Liquidity	\$173,079,143.02	11%
<b>Intermediate Accounts:</b>		
Schroder's Intern	\$908,151,090.98	55%
Schroder's L&W Endowment	\$78,051,789.42	5%
Schroder's Health Fund Endowment	\$55,717,663.78	3%
<b>Total:</b>	<b>\$1,643,348,553.58</b>	<b>100%</b>

Source: Delaware State Treasury

## Key Interest Rates

Rate	2/27/13	Month Ago	Year Ago
Wall Street Journal Prime Rates	3.25%	3.25%	3.25%
Federal Discount Rate	0.75%	0.75%	0.75%
Fed Funds Rate	0.25%	0.25%	0.25%
Bond Buyer's 20 Bond Index	3.74%	3.54%	3.69%
1 Month LIBOR Rate	0.20%	0.20%	0.24%
3 Month LIBOR Rate	0.29%	0.30%	0.49%
6 Month LIBOR Rate	0.46%	0.48%	0.75%
1 Year LIBOR Rate	0.76%	0.80%	1.07%
Call Money	2.00%	2.00%	2.00%

Source: Bankrate.com

## U.S. Treasury Department Bond Rates

Date	4 Weeks		52 Weeks	
	Bank Discount	Investment Yield	Bank Discount	Investment Yield
Feb. 28, 2013	0.07	0.07	0.16	0.16
Dec. 31, 2012	0.02	0.02	0.15	0.15

Source: U.S. Treasury Department

## Key Benchmark Exchange Rates

As of March 1, 2013

Currency	Value (in U.S. Dollars)	Change (from previous Index)
Euro	\$1.3018	-1.36%
British Pound	\$1.5017	-7.65%
Japanese Yen	\$0.0107	-6.96%
Australian Dollar	\$1.0193	-1.94%
Canadian Dollar	\$0.9723	-3.52%
Swiss Franc	\$1.0597	-2.89%
Chinese Yuan	\$0.1607	+0.12%

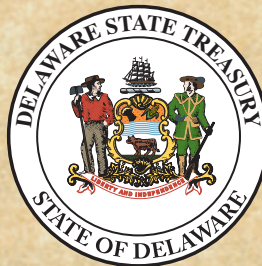
Source: Google Finance





## RECENT ECONOMIC ACTIVITY

- State Treasurer Chip Flowers released the Third Report on the Delaware State Treasury.
- The State of Delaware's AAA credit rating was reaffirmed by Moody's, Standard & Poor's and Fitch.
- Wesley College announced plans to close its satellite New Castle County location.
- Edwards Jones declared it would open three to five new offices in Delaware in the next year.
- Barclays Bank and JPMorgan Chase announce global layoffs.
- Dan & Zimmerman of Philadelphia opened an office in New Castle County hiring 40 people.
- Fisker Automotive hired Huron Consulting Group Inc. to help run its day-to-day operations as Fisker seeks partners or investors.
- PBF Energy will spend \$50 million to upgrade the Delaware City Refinery's ability to handle Canadian crude oil.
- Delaware Supermarket's Inc. announced plans to open a ShopRite in Glasgow. Approximately 300 people will be employed at the new ShopRite.
- Burton Bros. Hardware of Seaford closed.
- ILC Dover purchased Grayling Industries of Georgia and will create 115 Delaware jobs in Seaford by moving Grayling's Mexico operations to Seaford.
- SevOne announced an investment deal with Bain Capital that will enable it to hire 30 more Delaware employees.
- Christiana Center will be sold for \$75 million.
- ATI Physical Therapy purchased four clinics from MX Physical Therapy.
- Delaware Hospice announced it would lay off 52 employees.



<http://treasury.delaware.gov/>

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